



Auditor-General Auditing Standards

December 2019

Your ref:
Our ref:

10 December 2019

The Honourable C Pitt MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Speaker

Report to parliament

This report is prepared under section 58 of the *Auditor-General Act 2009*, and is titled Auditor-General Auditing Standards.

These updated Auditor-General Auditing Standards replace the previous standards dated September 2012.

Changes include providing additional context, incorporating strategic review recommendations and audit practice and legislative changes.

Audits will continue to be conducted in accordance with the requirements of standards issued by the Australian Auditing and Assurance Standards Board (AUASB) to the extent these are not inconsistent with the requirements of the Auditor-General Act or other applicable legislation.

In accordance with the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely



Brendan Worrall
Auditor-General

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Preface

The Auditor-General is parliament's independent auditor. As Auditor-General I am not subject to direction by any person about the way in which my powers in relation to audit are to be exercised and, in the priority, to be given to audit matters

In this document, the term *public sector* refers to both state entities and local governments, and the entities that they control.

The Queensland Audit Office (QAO) supports my role and plays a key role in the public sector accountability framework.

My principal role is to provide independent assurance to the people of Queensland through parliament on the financial management and performance of public sector entities. I achieve this through:

- performing the annual financial statement audit of every public sector entity
- for state public sector entities, evaluating whether the system of internal controls relating to the establishment and keeping of accounts is effective in all material respects
- for local government entities, I evaluate compliance with the *Local Government Act 2009* and the Local Government Regulation 2012 and audit the calculations in the annual financial sustainability statements
- auditing the consolidated funds accounts and consolidated whole-of-government financial statements
- auditing the expenditure for ministerial offices
- assessing the efficiency, effectiveness and economy of public sector services and programs
- assessing the performance management systems of Government Owned Corporations
- conducting audits of matters of property given by public sector entities to non-public sector entities (known as follow-the dollar provisions)
- conducting audits into financial administration at the request of parliament
- investigating matters raised about financial waste and mismanagement related to public assets and services
- sharing the insights, we gain from our work across the public sector on best practice
- reporting to parliament on matters of significance arising from our audits.

These Standards are prepared pursuant to s.58 of the *Auditor-General Act 2009* and replace those tabled in parliament on 13 September 2012.

They apply to all authorised auditors.



Brendan Worrall
Auditor-General
30 September 2019

Auditor-General Auditing Standards

Application of Auditor-General Auditing Standards

The *Auditor-General Act 2009* (the Auditor-General Act) allows for the Auditor-General to conduct an audit in the way the auditor-general considers most appropriate. The way we audit is set out in these *Auditor-General Auditing Standards*.

These standards apply to all audits undertaken by, or on behalf of, the Auditor-General.

They are the minimum standards to be applied in discharging the Auditor-General's mandate under the Auditor-General Act or other legislation.

The Auditor-General is required to report to the Legislative Assembly about any occasion of significance where these standards are not applied.

When referencing audit in this document, this includes all types of audits (including financial audit and performance audit), review and assurance engagements and any investigations of matters.

Scope of these standards

These standards set out the general principles to be applied to:

- the conduct of audits, reviews and assurance engagements and investigations of matters (collectively referred to as 'audits' throughout this document)
- the extent to which auditing standards made by relevant professional or statutory bodies are to be applied in conducting audits
- the selection, engagement and quality control of the work of contract auditors
- a decision as to whether an audit is exempt from audit by the Auditor-General.

Operative date

These standards apply for audits in financial years commencing on or after 1 July 2019 and replace those tabled in the Legislative Assembly on 13 September 2012.

Review

From the date of application, these standards will be reviewed at least every three years from when they were last tabled, or when there is a significant change including changes to legislation and auditing standards.



The conduct of audits

All audits are to be conducted in accordance with the mandate expressed in the Auditor-General Act.

Audits are also to be conducted in accordance with the requirements of standards issued by the Australian Auditing and Assurance Standards Board (AUASB) to the extent these are not inconsistent with the requirements of the Auditor-General Act or other applicable legislation. The applicable standards are listed in Appendix A.

The Auditor-General may conduct reviews under s.37 of the Auditor-General Act that do not directly apply assurance standards. The type of reporting associated with these reviews will be at the discretion of the Auditor-General.

Authorised auditors are to adhere to the highest standards of ethical behaviour, to demonstrate professional behaviour and ensure the independence of the Auditor-General is not compromised.

The selection, engagement and quality control of the work of contract auditors

The Auditor-General can appoint an appropriately qualified and experienced individual who is not an employee of QAO to be a contract auditor.

When selecting audit work to be performed by contract auditors the Auditor-General shall:

- consider audit risk and whole-of-government reporting requirements
- maintain an appropriate balance between the level of contracted-in assistance and the work performed by QAO
- apply Queensland Government procurement policies and achieve value-for-money procurement
- consider matching regional audits with regional contract auditors where appropriate
- consider using co-sourcing arrangements

When appointing contract auditors the Auditor-General shall:

- require all contract auditors to have an appropriate level of skills, knowledge and experience to undertake audits of public sector entities
- require that all contract auditors maintain appropriate quality assurance systems in accordance with relevant professional requirements
- maintain appropriate systems for monitoring and reviewing the performance of contract auditors.



Audit exemption—deciding whether an audit is small and low risk

The Auditor-General Act allows the Auditor-General the discretion to grant an exemption for public sector entities that are small **and** low risk.

For a public sector entity to be considered '**small in size**' the consolidated revenue for the financial year under review should be less than \$1,000,000.

In undertaking the assessment of **risk** the Auditor General shall consider:

- the financial performance and financial position of the entity
- the nature of the entity and its operations
- the results of audits previously conducted of the entity.

Application and other explanatory material

The standards are to be read in conjunction with the guidance provided in the following Application and other explanatory material section. They will be supported by audit methodology and toolsets and policies and guidance issued from time to time by the Auditor-General.



Application and other explanatory material

Application of standards issued by professional and statutory bodies

Standards issued by the AUASB set out the principles and essential procedures to be applied to all assurance audits. The standards include guidance material that help auditors exercise professional judgement. The application of these standards will enhance audit quality.

Standards issued by the AUASB are legally enforceable for audits and reviews conducted under the *Corporations Act*. In undertaking an audit or review under the *Corporations Act* the Auditor-General must ensure compliance with the standards but is not limited to a consideration of matters required by either those standards or the *Corporations Act*.

The standards issued by the AUASB are also applicable to audits and assurance engagements not conducted under the *Corporations Act* but are not legally enforceable for such engagements.

These standards, along with other standards and guidance issued by the AUASB are to be adopted for all public sector audits to the extent that they are relevant and not inconsistent with the requirements of the Auditor-General Act and other legislation that prescribes the Auditor-General's work.

The Auditor-General may conduct reviews under s.37 of the Auditor-General Act that do not directly apply these assurance standards. The type of reporting associated with these reviews will be at the discretion of the Auditor-General.

The Accounting Professional and Ethical Standards Board (APESB) is an independent body that sets the code of ethics and professional standards within which audit professionals who are members of CPA Australia, CA ANZ or IPA must comply. The Auditor-General has established a culture and a system of quality control that ensures compliance with these standards. This includes the application of Auditing Standard ASQC 1 Quality Controls for Firms the Perform Audits and Reviews of Financial Reports and other Financial Information, other Assurance Engagements and Related Services Engagements (ASQC1).



General standards applying to the conduct of audits

The mandate to undertake audits of Queensland public sector entities is derived from the Auditor-General Act. The Act establishes

- the Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way audit powers are to be exercised
- the legal basis for the Auditor-General's access to all government information

The Auditor-General can report directly to parliament on any matter. This independence is cornerstone to public sector auditing.

The legislative basis for the specific types of audits that may be conducted under the Auditor-General Act are included in Appendix B to these standards.

Conduct of audits of public sector entities

Public sector entities are wide ranging and include:

- departments
- local governments
- statutory bodies
- government owned corporations
- controlled and jointly controlled entities
- consolidated whole-of-government accounts.

QAO will undertake financial audits and performance audits on public sector entities. We have developed methodologies to support these types of audits. The Australian Auditing Standards that apply to our audits are listed in Appendix A.

Financial audits

The Auditor-General is required to undertake an audit of the annual financial statements of all public sector entities and issue an independent auditor's report on those statements.

The primary objective of these audits is to provide independent reasonable assurance to our clients, parliament and the community that the information contained in the financial statements is in all material respects:

- free of misstatement, whether due to fraud or error
- presented fairly in accordance with applicable accounting standards and legislative requirements.

For certain public sector entities:

Limited assurance is also provided on whether internal controls relating to the establishment and keeping of accounts are effective, in all material respects, for properly identifying and recording applicable transactions and account balances in accordance with the prescribed requirements of the *Financial Accountability Act 2009* and the *Local Government Act 2009*.

Reasonable assurance opinions and certifications are also issued over grant funding provided to public sector entities.



For local government entities:

A reasonable assurance opinion is also issued on whether the Councils financial sustainability statement has been accurately calculated.

Councils also receive grant funding. Assurance opinions are issued in the format required by the grantor.

Conduct of audits:

In conducting a financial audit, the mandatory requirements of applicable Australian Auditing Standards are applied. The Auditor-General has developed and maintains a methodology based on the requirements of these standards.

Financial audits may also include an assessment of:

- the probity of matters associated with the stewardship of public sector entities
- the propriety of administrative decisions taken within an audited entity and the associated audit reporting processes
- acts or omissions that have given rise to a waste of public resources
- compliance with relevant acts, regulations and government policies.

Audits where no financial statements are prepared:

In certain circumstances some public sector entities may not be required to prepare annual financial statements. An annual audit of the public sector entity is, however, still required by s.30 of the Auditor-General Act. In these circumstances the audit report will be based on an examination of financial systems and transactions including an evaluation of compliance with applicable Acts and subordinate legislation.

Application of Auditing Standard ASA 701 Communicating Key Audit Matters:

The purpose of this standard is to mandate the communication of key audit matters in the auditor's report of audits of listed entities. The standard defines key audit matters as "those matters that, in the auditor's professional judgement, were of most significant in the audit of the financial report". The standard does not have mandatory application to public sector entities.

The Auditor-General may elect to apply ASA 701 to public sector entities. In doing so, the Auditor-General will ensure there is an appropriate framework for identifying the public sector entities to which the standard will be applied. The current framework identifies the following criteria on which the Auditor-General may determine which public sector entities will be subject to ASA 701:

- large and complex entities that require significant audit effort and professional judgement
- entities where highly significant matters arose during the audit and an understanding of those matters is of importance to users of the financial report
- entities that are material to whole-of-government.

Other financial assurance activities

The Auditor-General may also agree to provide other assurance services that are incidental to auditing annual financial statements. This may include undertaking special investigations or providing independent auditor's reports on regulatory statements and internal control assessments. We also issue assurance reports on controls at service organisations. While these activities are within the Auditor-General's mandate, unless required by legislation these additional activities are undertaken at the discretion of the Auditor-General and only where deemed appropriate in the public interest. If necessary, separate audit engagement letters, setting out audit scope, responsibilities and reporting requirements, will be issued for these assurance activities.

Anyone with information or concerns about financial mismanagement in Queensland public sector entities can refer matters to the Auditor-General to consider. The QAO will assess information provided and if appropriate, investigate the issue with the aim of strengthening and improving public sector performance and accountability. The assessment will consider the most appropriate integrity agency to investigate the matter.

QAO's public sector knowledge and experience allows us to provide insights to key external stakeholders on a wide range of issues related to public sector financial management and accountability, accounting and auditing standards and other legislative requirements. The provision of expert advice and insights will be provided where it does not impact on the actual or perceived independence of the Auditor-General.

Performance audits

The Auditor-General has a broad mandate to audit the performance of government service delivery. This gives parliament and the community independent and reasonable assurance that public money has been used well, that results meet expectations and that the entities are delivering public services economically, efficiently and/or effectively.

Performance audits adhere to the AUASB standards on assurance engagements *ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and *ASAE 3500 Performance Engagements*. The Auditor-General has developed and maintains a methodology based on the requirements of these standards.

The scope of these audits may include:

- identifying better ways of delivering public services in our audit findings, conclusions and recommendations
- determining whether the objectives of a public sector entity, excluding a Government Owned Corporation (GOC,) are being achieved economically, efficiently and/or effectively and in compliance with all relevant laws
- determining whether performance management systems of a GOC or a controlled entity of a GOC enables them to assess whether their objectives are being achieved economically, efficiently and effectively
- reviewing performance measures adopted by public sector entities and assessing whether they are relevant and fairly represent entity performance.
- assessing compliance with relevant acts, regulations, government policies and other prescribed requirements.

A performance audit of a GOC or a controlled entity of a GOC may be undertaken at the request of the Legislative Assembly, a parliamentary committee, the Treasurer or an appropriate Minister. The Auditor-General may initiate action for a request to be made.



The size and diversity of public sector entities means that QAO is unable to evaluate the performance of all its services regularly. Given our vision of 'better public services' QAO will select a program of performance audits that recognises the key issues facing public sector service delivery, and the wider community.

QAO continually scans the environments that public sector entities operate and consult widely with parliamentary committees, public sector entities and other stakeholders to seek their views. QAO also welcomes suggested performance audit topics from the public.

The public and other parties may refer to us matters of financial waste or mismanagement which we investigate. The results of these investigations may also identify a potential topic.

In finalising our program, QAO first considers whether a potential topic is best addressed through a performance audit. We then prioritise topics according to their significance, risk, previous coverage and planned coverage by other review agencies and the potential application of broader learnings or benefits. Finally, based on the appropriation funding provided to us for undertaking performance audits, we select the topics we expect to examine over the next three years. We publish these annually in our strategic audit plan. We aim to balance our program of audits to give parliament assurance across the full range of public sector accountabilities.

QAO may replace or reschedule topics in the strategic audit plan to accommodate new information, trends or changing priorities.

Joint or collaborative audits

The Auditor-General Act permits the Auditor-General to conduct an audit jointly or in collaboration with an Auditor-General of another Australian jurisdiction. The objective of a joint or collaborative audit is to provide enhanced efficiency and consistency in auditing and reporting on areas of common interest.

These audits will generally be conducted as separate audits by each Auditor-General with the results of the audits shared between Auditors-General, to the extent relevant and permitted by governing legislation. The exact nature and scope of the audit to be conducted is at the discretion of each Auditor-General.

Such audits may be undertaken only where a common understanding is reached between the Auditors-General of the relevant jurisdictions in relation to the:

- nature and scope of the audit to be conducted by each Auditor-General
- reporting of results and sharing of information in relation to the audit.

Conduct of audits of non-public sector entities

In addition to audits of public sector entities, the Auditor-General Act also provides for the following audits of non-public sector entities:

- audits conducted on a 'by-arrangement basis' at the request of a Minister or public sector entity, where the entity consents to the audit
- audits of matters relating to property that is, or was, held or received by a public sector entity and given to a non-public sector entity (known as follow-the dollar provisions).

A decision as to whether audits of this nature are to be conducted is at the discretion of the Auditor-General based on an assessment of the public interest.

These audits, where undertaken, are to be conducted in accordance with the requirements of the Auditor-General Act and these standards. In undertaking an audit of a non-public sector entity, the Auditor-General shall ensure that the nature and scope of the audit and the rights and responsibilities of parties concerned are adequately communicated to the entity subject to the audit.

Other legislation may also include provisions identifying circumstances where the Auditor-General may be requested or required to undertake an audit of a non-public sector entity.

Audit methodology

The Auditor-General maintains an appropriate audit methodology and toolset to ensure all audits are conducted in accordance with the requirements of the Auditor-General Act and these standards.

The approved audit methodology reflects:

- an appropriate focus on public sector accountability, including accountability to the parliament
- adherence to auditing standards
- good practice
- audit efficiency.

Standards applying to authorised auditors

The Auditor-General will recruit assurance practitioners and appoint contract auditors with the necessary level of accounting and auditing expertise and other specialised skills, to enable effective discharge of the responsibilities and stewardship prescribed by the Auditor-General Act.

Authorised auditors are expected to have an expert understanding, commensurate with their role and responsibilities, of:

- the Auditor-General Act
- these standards and Australian Auditing Standards
- relevant professional and ethical requirements
- the approved QAO audit methodologies for audit and assurance reports
- policies, guidelines, instructions, and expectations of the Auditor-General
- the public sector environment including legislative requirements.

All audit work shall be carried out by assurance practitioners with appropriate technical qualifications, skills and proficiency required for undertaking auditing tasks. Subject matter experts who are not assurance practitioners will be given appropriate direction and supervision by the assurance practitioner.

An authorised auditor shall maintain an objective approach and an attitude of professional scepticism to matters relating to recognition of facts, exercising of judgement and expression of opinions. An authorised auditor shall exercise due care and diligence by complying with these standards and relevant policy, guidance and instructions in relation to the conduct of audits in accordance with the requirements of the Auditor-General Act.



Authorised auditors are bound by the confidentiality provisions contained in s.53 of the Auditor-General Act. It is an offence for protected information to be used or communicated by authorised auditors for purposes outside the scope of the provisions of the Auditor-General Act.

Powers of access

An authorised auditor is entitled, at all reasonable times, to full and free access to all documents and property relevant to the audit and a person must not, without reasonable excuse, fail to comply with a requirement made under this section. This requirement does not apply to non-public sector entities audited under follow-the-dollar provisions.

The Auditor-General Act provide additional powers for obtaining information and evidence related to an audit. Generally, these sections are only relied on in exceptional circumstances or when other means of seeking co-operation with an entity or person subject to audit have proven unsuccessful.

Sharing of audit information

Information obtained during an audit of any public sector entity is protected information. All protected information is treated with the highest levels of confidentiality.

The Auditor-General Act provides for the disclosure of protected information to:

- a parliamentary or portfolio committee
- the Crime and Corruption Commission
- the police or any entity responsible for the investigation or prosecution of offences in any jurisdiction
- a court for the purposes of the prosecution of a person for an offence in any jurisdiction
- the Australian Securities and Investment Commission (ASIC)
- the Treasurer or the department in which the *Financial Accountability Act 2009* is administered.

The sharing of information with the Treasurer and Queensland Treasury is allowed through Auditor-General Act section 72A. The Treasurer may use this information only for the purposes of whole-of-government budgeting and monitoring. Local governments are not considered public sector entities for the purpose of section 72A.

Protected information obtained through QAO's audit analytics procedures is subject to strict data governance and confidentiality provisions.

Communication and reporting

Reports to parliament

The Auditor-General may report on any audit conducted or on any matter investigated. These reports contain observations and suggestions about anything arising out of the audit.

The Auditor-General Act contains details of who these reports must be given to. Where there is a requirement to table our reports in parliament, the tabling protocol in Appendix C must be adhered to.

Financial audits

Effective, regular and timely communication with those charged with governance at audited entities is an important part of the audit process. Entry meetings are held to clarify the audit scope and decide on communication protocols. Observations, recommendations or suggestions arising from the conduct of the audits are shared with entities throughout the audit, and formal opportunities to comment on these are provided progressively during the conduct of the audit.

At the conclusion of each audit a report is prepared to convey the results of the audit and identify specific matters recommended for inclusion in a report to parliament. The report should incorporate the public sector entity's views on the audit findings and conclusions together with information about management-initiated improvements or remedies. Disagreements between management and the authorised auditor must be documented and explained.

Based on a consideration of matters identified during the financial audit, the Auditor-General will determine those matters arising from the audit which are required to be reported to the appropriate Minister and Treasurer. If the matters are deemed to be significant, they will also be included in a Report to parliament.

A matter of significance from a financial audit may include but is not limited to:

- information and explanations relating to modified audit opinions
- inappropriate use of delegations
- an absence of, or breakdown in, internal control which could lead to misappropriation or material errors
- disregard for prescribed accounting and financial management standards
- substantial mismanagement or waste of resources or maladministration
- problems which are systemic within a particular entity or across a broader field
- an issue of financial significance (irrespective of whether the matter has been resolved or not)
- an issue about financial performance and sustainability
- a current risk or emerging risks/future challenges
- better practice or proactive innovations by public sector entities
- delays in implementing recommendations to address critical control issues, including aged internal and external audit recommendations.

Performance audits

The QAO performance audit methodology sets out the engagement principles and communications that will be issued throughout the performance audit engagement.

Each performance audit makes recommendations on how to improve the component of service delivery that we have audited. Our findings and recommendations can include insights on best practice. By accepting our recommendations, the entity involved agrees to resolve the gaps in performance we identify and implement improvement opportunities.

We issue a proposed report prior to the completion of the performance audit and entities have 21 days to provide a written response, unless the Auditor-General agrees to a longer timeframe. We may also issue a preliminary report prior to the proposed to make sure we have included relevant context.

All audit reports are to be prepared in an objective, factual and balanced manner.



Other assurance reporting

The Auditor-General has a wide mandate to report other issues to the parliament.

The relevant assurance standards that guide the audit methodology, conduct and reporting are listed in Appendix A.

An assurance review may be initiated on the basis of information obtained in the course of performing an audit or in response to requests from stakeholders, including parliamentarians, parliamentary committees and Director-Generals.

Audit recommendations

The Auditor-General has no authority to enforce the adoption of recommendations relating to matters arising from an audit. This remains the responsibility of entity management, executive government and ultimately, parliament.

The Auditor-General will endeavour to work proactively with entities, executive government and parliament to ensure matters identified are appropriately resolved in a manner which enhances accountability and performance of entities and the public sector in general.

QAO will monitor the adoption of recommendations and report this information to a parliamentary committee or Parliament.

Public interest and commercial-in-confidence

The Auditor-General Act states the procedures for reporting sensitive information. The Auditor-General can consider reporting matters directly to parliamentary committees if it is in the public interest to do so.

Where the Auditor-General considers it would be against the public interest to disclose a matter in a report to parliament, s.66 of the Auditor-General Act requires the matter to be included in a report to the appropriate parliamentary committee.

Public sector entities can request that we do not report commercially confidential information. As the Auditor-General Act does not define “commercial-in-confidence” QAO may seek legal advice to inform how we report.

Commenting on government policy

When undertaking performance audits, s37A(5) of the Auditor-General Act states that the Auditor-General must not comment on the merits of policy objectives of the State or a local government.

This provision serves the dual purpose of recognising that it is the prerogative of the government to determine policy while also safeguarding the independence of the Auditor-General.

Government policy is an authoritative statement of the principles which a government sets to define outcomes or goals of planned actions. Policy objectives are the declared outcomes the government is seeking to achieve through the implementation of government policy

The restrictions imposed by s.37A(5) do not prevent the Auditor-General from commenting on the:

- implementation of government policy
- advice provided to the government used to formulate the policy to achieve the objectives.

Specifically, whether policy objectives have been achieved efficiently, effectively and economically.

The restrictions imposed by s.37A(5) will also apply when undertaking an audit of matters when applying assurance standards other than ASAE 3500 (as listed in Appendix A).

Independence and ethical standards

Authorised auditors must be objective, independent and diligent and avoid any possible compromise of independence through any form of conduct which could imply or create an impression of lack of independence. Any potential or actual conflict of interest must be advised to the Auditor-General in a timely manner.

An authorised auditor is expected to adhere to the highest standards of ethical behaviour, having regard to the *Public Sector Ethics Act 1994* and APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board (APESB). In addition, authorised auditors shall comply with QAO audit independence framework consisting of the *Code of Conduct for the Queensland Public Service* and other internal policies.

An authorised auditor should not accept or solicit any money, gift or other benefit from a public sector entity or any parties associated with that entity which could affect audit independence and objectivity. Where a gift is received by an authorised auditor this must be declared, approved and reported in accordance with policy directives and prescribed requirements applying to QAO.

In performing an audit, an authorised auditor should be fair and balanced in dealing with the staff of the public sector entity. An authorised auditor should at all times maintain a level of conduct which does not detract from the professional standing of QAO and the accounting profession generally. In this context, authorised auditors are required to observe QAO's non-discriminatory work practices and refrain from allowing workplace relationships to adversely affect the performance of official duties.

Quality assurance

The Auditor-General has in place an appropriate quality assurance framework aimed at ensuring that the delivery of audit services is of a professionally high and consistent quality.

This framework addresses quality assurance at both the audit and firm level and is guided by the requirements of:

- ASQC1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements
- ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information
- APES 320 Quality Control for Firms
- APES 325 Risk Management for Firms.

An annual program of quality assurance activities is agreed with the Auditor-General. The Audit and Risk Management Committee has oversight of the quality assurance program.

The Auditor-General will appoint an engagement quality control reviewer (EQCR) for all complex and high-risk financial audits and assurance engagements. Audits will be assessed annually to determine if they are considered complex and high-risk.



Complex and high-risk audits and assurance engagements require the support of specialist audit staff and subject matter experts. Engagement leaders will document the requirement to engage with specialists and ensure appropriate specialist skills are allocated to audits. In-house specialist resources are maintained in the areas of technical audit and accounting matters, data analytics, treasury products and information systems auditing.

A technical committee has been established to review and endorse recommendations on complex accounting and audit issues. Engagement leaders are expected to bring all complex issues, including those with whole-of-government implication, to the technical committee.

If a modified audit opinion is proposed for a financial audit, the form and content of the independent audit opinion is to be reviewed by a modified opinions panel.

The Auditor-General Act requires that a strategic review of QAO be conducted at least every five years from the Minister's response to the parliamentary committee report on the strategic review. This includes a review of the Auditor-General's functions and their performance to assess whether they are being performed economically, effectively and efficiently.

Exemptions from audit by the Auditor-General

Public sector entities may be exempt from audit by the Auditor-General in certain circumstances. Exemptions will be granted only where, in the Auditor-General's opinion, there are no public interest reasons for the Auditor-General to undertake the audit.

The Auditor-General Act provides three circumstances for exemption:

1. Section 30A allows an exemption from audit by the Auditor-General if they are small and low in risk. The criteria applied in assessing whether an audit is small and low in risk are outlined in the next section.
2. Section 31 allows an exemption from audit by the Auditor-General after a Minister has consulted with the Auditor-General about the proposed regulation. Exemptions granted under s.31 are included in the *Auditor-General Regulation 2019*. To date only Parents and Citizen associations have been allowed this exemption.
3. Section 32 allows an exemption to a range of defined controlled entities from audit by the Auditor-General and for the audit instead to be undertaken by an auditor approved by the Auditor-General. Exemptions will generally be granted under this section where:
 - the audit is to be undertaken in a location where the Auditor-General does not have jurisdiction or is not recognised as a qualified auditor
 - it is impracticable for the Auditor-General to undertake the audit of the controlled entity because the entity is based or has significant operations in a country other than Australia
 - the entity operates in cooperation with or in a corporate group with entities that are exempt.

In all cases where an exemption is granted the relevant public sector entities are required to implement alternate audit arrangements.

The granting of exemptions does not prevent the Auditor-General from performing any of the functions or exercising any of the powers identified in the Auditor-General Act in relation to public sector entities.

Criteria for identifying if audits of public sector entities are small in size and low risk— Auditor-General Act s.30A

Any decision to exempt a public sector entity from audit by the Auditor-General on the basis it is small and low in risk' is at the discretion of the Auditor-General.

In determining whether to grant an exemption under s.30A the Auditor-General may consider any factors the Auditor-General considers appropriate in the circumstances. This includes any whole of government or public interest reasons.

The following criteria are to be applied in determining whether an audit of a public sector entity is small and low in risk for the purpose of s.30A of the Auditor-General Act.

For an audit of a public sector entity to be considered '**small in size**' the consolidated revenue for the financial year under review should be less than \$1 000 000. (This threshold aligns with the annual reporting and audit requirements set by the Australian Charities and Not-for-profits commission.)

In assessing whether an entity is '**low in risk**' the following factors will be considered:

- nature of the entity, its business and the industry in which it operates
- stability of the entity structure and its key management personnel
- complexity of the entity's financial systems and the appropriateness of internal controls, as considered relevant for the entity
- existence of an appropriate financial reporting framework and the complexity of financial reporting requirements applicable to the entity
- extent and complexity of the legal and regulatory environment in which the entity operates
- extent of external interest in the entity and its operations
- financial stability of the entity, including issues impacting on the entity's ability to continue as a going concern
- extent of significant issues previously identified, including matters:
 - requiring modification to the independent auditor's report issued on the financial statements
 - not impacting on the independent auditor's report but requiring significant adjustments to the financial statements.

An exemption will only be granted where the Auditor-General is satisfied that the public sector entity has appointed an appropriately qualified auditor to undertake the audit in accordance with the requirements of s.30A. The Auditor-General may impose conditions in relation to the granting of the exemption including:

- the period, not exceeding three years, for which the exemption is being granted
- information to be provided to the Auditor-General by the entity and the appointed auditor to enable an annual assessment of the exemption as required by s.30A.

In accordance with the requirements of s.30A, the Auditor-General may repeal an exemption by written notice given to the public sector entity. An exemption may be repealed where there is a significant change in the assessment of the audit or where issues are identified with the quality of the audit performed by the auditor appointed by the public sector entity.



Contract auditors

Section 43 of the Auditor-General Act enables the Auditor-General to appoint an appropriately qualified and experienced individual who is not an employee of QAO to be a contract auditor.

Contract auditors are an extension of the QAO workforce. Their work is subject to:

- oversight by QAO engagement leaders
- quality assurance reviews.

Selection of work to be contracted out

The decision to contract-out audits or part of an audit is a strategic decision having regard to the overall mandate, the optimum mix of permanent QAO staff and contracted-in assistance, and the suitability of audits for contracting out.

In assessing whether audits are suitable for contracting-out the following factors are to be considered:

- need to maintain relevant industry and sector knowledge within QAO
- level of risk associated with the audit
- size and significance of the audit in relation the whole of government or the industry sector
- interrelationships between public sector entities
- sensitivities associated with the entity's operations or information that the entity holds
- uniqueness of the audit
- the location of the audit and the availability of regional contract auditors
- need to maintain continuity of audit arrangements
- need to access specialist expertise and assistance.

Engagement of contract auditors

Contract auditors are to be partners, directors or principals of pre-qualified audit service providers. To pre-qualify, the individual partner and their firm must meet and maintain minimum professional standards set by the Auditor-General. These minimum standards include:

- relevant experience to enable them to undertake audits in the public sector
- current registration with relevant and appropriate regulatory bodies (such as CAANZ or CPA and registered by ASIC as Registered company auditor and have a Certificate of Public Practice)
- capacity to undertake audits on behalf of the Auditor-General
- an appropriate audit methodology compliant with the requirements of the standards issued by the AUASB and these standards
- an understanding of additional audit objectives associated with undertaking an audit of a public sector entity
- an appropriate system of quality assurance at both the firm and audit level.

A register is to be maintained of all pre-qualified audit service providers. As part of the pre-qualification process audit service providers are categorised based on an assessment of the following:

- number of audit partners in the firm
- extent of revenue earned by the firm from assurance activities
- whether the firm is a national firm or part of a network/alliance
- access to technical support and other expertise or specialist knowledge.

Audits selected to be performed by a contract auditor are offered to pre-qualified audit service providers in accordance with approved QAO procurement policies which comply with the *Queensland Procurement Policy*.

Additional matters that may be considered when engaging a person as a contract auditor include:

- actual or potential conflicts of interest
- whether the auditor is of good standing
- entity feedback on past performance.

Quality control of work of contract auditors

Contract auditors have all powers and responsibilities of an authorised auditor under the Auditor-General Act. All audit work performed by contract auditors on behalf of the Auditor-General is to be undertaken in accordance with these standards.

All audit work undertaken by a contract auditor must also be performed in accordance with the terms and conditions of the contract entered with QAO.

Contract auditors are to maintain their own quality assurance systems in accordance with relevant professional and ethical requirements.

Contract auditors must ensure that the Auditor-General is advised of any real or perceived conflicts of interest in relation to work undertaken on behalf of the Auditor-General. Contract audit firms must not provide other services of any nature to a public sector entity it is engaged to audit during the period of the contract for auditing services unless approved by the Auditor-General.

QAO's Quality Assurance Framework provides for the regular review of contract auditor performance and quality assurance systems implemented by the contract audit firms. Registered contract auditors who cannot demonstrate a continuing satisfactory level of internal quality assurance or performance may have existing contracts terminated and be removed from the register of pre-qualified audit service providers.

All working papers prepared in connection with the contract audit are the property of QAO and are to be made available to QAO staff for the purposes of undertaking quality reviews and assessment of contract auditor performance in accordance with QAO policies. Work papers are public records under the *Public Records Act 2002* and cannot be destroyed/disposed of without the specific authority of the Auditor-General.

Contract auditors are responsible for ensuring staff employed by them comply with these standards when undertaking audit work on behalf of the Auditor-General.



Appendix A—Assurance Standards to be applied

Financial audits are conducted in accordance with Australian Auditing Standards. They establish requirements and provide application and other explanatory material on:

- the responsibilities of an auditor when undertaking an audit of a financial report and
- the form and content of the auditor's report.

The Auditor-Generals mandate can extend to review and assurance engagements. Performance audits that consider the economy, efficiency and/or effectiveness are conducted under *ASAE 3500 Performance Engagements*. The Auditor-General may also undertake other types of assurance engagements and when doing so will apply assurance standards to the extent they are appropriate to the scope of assurance work. The relevant standards are listed in the following table.

| Standard number | Title | Issue date |
|-----------------|--|---------------|
| ASRE 2405 | Review of Historical Financial Information Other than a Financial Report | August 2008 |
| ASRE 2415 | Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation | July 2013 |
| ASAE 3000 | Assurance Engagements Other than Audits or Reviews of Historical Financial Information | May 2017 |
| ASAE 3100 | Compliance Engagements | February 2017 |
| ASAE 3402 | Assurance Reports on Controls at a Service Organisation | May 2017 |
| ASAE 3500 | Performance Engagements | October 2017 |
| ASAE 3150 | Assurance Engagements on Controls | January 2015 |
| ASRS 4400 | Agreed-Upon Procedures Engagements to Report Actual Findings | July 2013 |
| APES 215 | Forensic Accounting Services | April 2016 |

The Auditor-General may conduct reviews under s.37 of the Auditor-General Act that do not directly apply these assurance standards. The type of reporting associated with these reviews will be at the discretion of the Auditor-General. Examples of these reviews are:

- conducting audits into financial administration at the request of the Legislative Assembly
- investigating matters raised about financial waste and mismanagement related to public assets and services
- sharing the insights we gain from our work across the public sector on best practice
- reporting to parliament on matters of significance arising from our audits
- reporting to parliament on emerging or actual risks within the public sector.

Appendix B—Types of audits identified in the *Auditor-General Act 2009*

- s.35 Audits at the request of the Legislative assembly
- s.36 By-arrangement basis
- s.36A Audits of matters relating to property that is, or was, held or received by a public sector entity and given to a non-public sector entity
- s.37 an Audit of matters, conducting in a way the auditor-general considers appropriate
- s.37A Performance audits of public sector entities
- s.38 Audits of performance managements systems of government owned corporations and controlled entities of government owned corporations
- s.39 Audit of the consolidated fund
- s.40 Audit of financial statements of public sector entities
- s.41 Audit of expenditure of ministerial offices
- s.42 Audit of consolidated whole of government financial statements
- s.42A joint or collaborative audit.



Appendix C—Tabling protocols

General principle

Reports to parliament are tabled on parliamentary sitting days. The Auditor General may table on a non-sitting day where there are limited or no sitting days within 14 days of report finalisation. The same principle would also apply during periods of parliamentary recess.

Caretaker period

If a proposed audit report under s.64 has been issued for comment and responses have been received prior to the calling of an election (State or Local Government), these reports will be tabled during the caretaker period. If an election has been called prior to the lapse of the 21-day comment period, these reports will be tabled after the election.

Exception to this principle:

1. If the caretaker period exceeds 45 days, the Auditor-General may elect to table the report as planned.
2. If the report contains information requested by parliament or of significant public interest, the Auditor-General may elect to table the report as planned.

Estimates hearings period

Parliament does not sit during estimates hearings. An audit report will not be tabled during the estimates hearing period. The estimates hearing period is considered final once the portfolio committee reports are tabled.

Exception to this principle:

1. If the report contains information requested by parliament or of a significant public interest, the Auditor-General may elect to table the report.

Significant public interest

Information of significant public interest is a matter of judgement and the following is a non-exhaustive list of public interest matters which the Auditor-General may consider:

- matters of public concern and importance
- the proper administration of government
- open justice
- public health and safety
- the prevention and detection of crime and fraud
- the economic wellbeing of the state or local government.

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